

Message Text

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17

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FM SECSTATE WASHDC

TO AMEMBASSY BERN

UNCLAS STATE 205355

E.O. 11652: N/A

TAGS: EFIN, US, SZ

SUBJECT: SMALL BUSINESS ADMINISTRATION - PROPOSAL FOR
OFFSHORE REFINANCING OF GUARANTEED LOANS

REF: BERN 3434

1. DEPT. CONTACTED DIRECTOR, OFFICE OF SECONDARY MARKET
PROGRAM AT SBA REGARDING LEVI LETTER DESCRIBED REFTEL.
SBA ASSISTANT ADMINISTRATOR FOR FINANCE RESPONDED ON
JULY 16 TO LEVI LETTER OF JULY 7.

2. SBA CONSTRUED LEVI LETTER AS AN OFFER TO DEVELOP AN
OFFSHORE MARKET FOR A FEE. SBA RESPONSE WAS A GENERAL
"NO THANKS". SBA INDICATED TO DEPT. THAT IT IS CONCEN-
TRATING ITS EFFORTS ON THE U.S. MARKET, WHERE THERE ARE
MORE THAN ENOUGH FUNDS. SBA EXPLAINED THAT THE PAPER IT
GUARANTEES IS OFTEN DISCOUNTED BY THE LENDING BANK. MR.
LEVI WOULD HAVE TO CONTACT THESE BANKS AND PERHAPS BID ON
BLOCK OF THESE LOANS, SINCE SBA IS NOT DIRECTLY INVOLVED IN
THEIR PLACEMENT OR THE OPERATION OF THE SECONDARY MARKET.
THE SBA JULY 16 RESPONSE INFORMED LEVI THAT THE TAX QUESTION
HE RAISED INVOLVED AN ISSUE BEYOND SBA'S CAPACITY TO
ADDRESS.

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3. DEPT. UNDERSTANDS THAT THE ONLY EXEMPTIONS TO THE 30 PERCENT WITHHOLDING TAX INVOLVES (A) SHORT TERM USG INSTRUMENTS AND COMMERCIAL PAPER, AND (B) REVENUE FROM CERTAIN HOLDINGS OF FOREIGN GOVERNMENTS. THERE IS NO PROVISION FOR AN EXEMPTION FOR FOREIGNERS SIMPLY BECAUSE THE DEBT INSTRUMENT BELONGS TO, OR IS GUARANTEED BY, THE USG.DOUBLE TAX TREATIES OFTEN LOWER THE WITHHOLDING RATE, BUT THIS VARIES FROM COUNTRY TO COUNTRY. SECRETARY SIMON'S TESTIMONY OF JULY 8 BEFORE HOUSE WAYS AND MEANS COMMITTEE, WHICH IS CONSIDERING A COMPREHENSIVE TAX REFORM PACKAGE, REITERATED THE ADMINISTRATION PROPOSAL THAT THE 30 PERCENT WITHHOLDING TAX BE ABOLISHED. INGERSOLL

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